

FDIC State Profile

Summer 2006

New Jersey

Higher petroleum prices may pressure some of the state's consumers this summer.

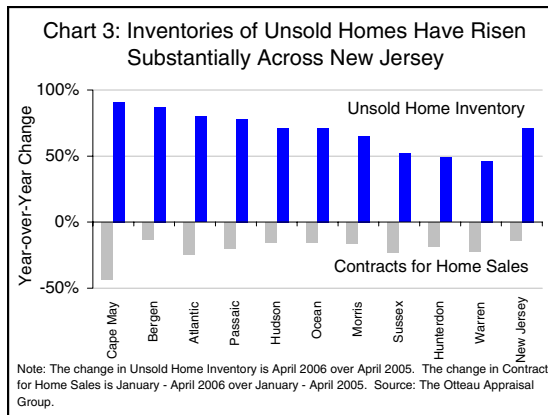
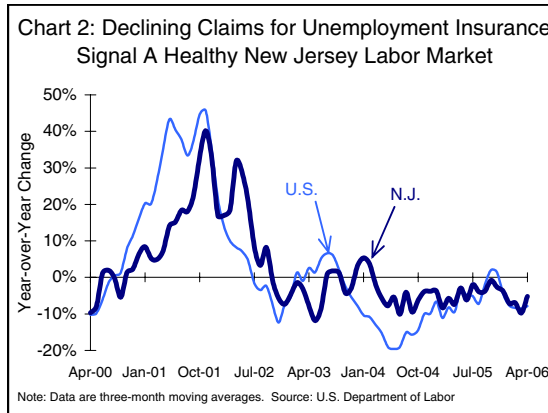
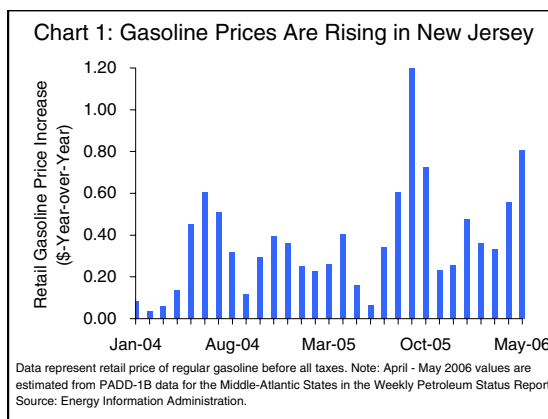
- Retail gasoline prices in New Jersey have steadily increased this year (see Chart 1). The price of regular gas approximated \$2.90 per gallon in June, up almost 40 percent from one year ago.¹ In addition, some energy-intensive industries, such as airlines and chemicals, are passing fuel cost increases along to the state's consumers.
- Higher prices at the pump may strain household budgets, particularly for lower income groups.

The New Jersey economy continues to grow, and personal income remains very high.

- During first quarter 2006, state job growth reached 1.28 percent, New Jersey's highest quarterly rate since fourth quarter 2000. However, the state's rate of growth eased at the start of the second quarter and remains below the national average. A May 2006 report suggests modest economic growth will occur in the state for the balance of this year.²
- Initial claims for unemployment insurance in the state continue to decline from the prior year, signalling a healthy labor market (see Chart 2). At 4.6 percent, New Jersey's first quarter 2006 unemployment rate remains below the U.S. average.
- High personal income levels help support the state's economy. New Jersey's level of real per capita personal income is among the highest in the nation, and the rate of income growth increased in first quarter 2006, similar to the nation.

Housing activity is slowing across New Jersey, and the inventory of unsold homes is expanding.

- An increasing inventory of unsold homes suggests continued slowing in the state's housing market. The supply of homes on the market in New Jersey was 70 percent higher in April 2006 compared with April 2005,



¹American Automobile Association as of June 1, 2006.

²New Jersey Leading Economic Index; Federal Reserve Bank of Philadelphia, May 2006.

and the increase was more pronounced in certain counties (see Chart 3). Unsold housing inventory in New Jersey represents an estimated 7-month supply, up from 3 months one year ago. The months of supply is higher for New Jersey's high-priced homes, greater than \$1 million, than lower priced homes. Home sales volume also is slowing in the state, declining by 14 percent through April (year-to-date) from one year ago.³

- As the supply of unsold homes has grown, the rate of home price appreciation in New Jersey has eased from a high reached in late 2004. Nonetheless, appreciation rates remain high, and all of state's markets recorded above U.S. average rates in first quarter 2006.⁴

Net interest margin (NIM) pressure continues to weigh on the profitability of New Jersey insured institutions.⁵

- The decline in NIM reported by the state's institutions in first quarter 2006 (year-over-year) continues to constrain profitability (return on assets) (see Chart 4). Approximately two-thirds of New Jersey-based institutions reported reduced NIMs in first quarter 2006 compared with one year ago.
- The state's higher proportion of mortgage lenders is contributing to lower margins during the flat yield curve environment, as mortgage loans typically have lower yields (and lower credit risk) than other loan types.⁶ Approximately 38.5 percent of the state's insured institutions, holding 54 percent of the state's assets, specialize in mortgage lending. Nationally, mortgage lenders compose almost 10 percent of insured institutions and 15.6 percent of total assets.
- New Jersey-based institutions continue to report favorable asset quality. The state's ratio of total past-due loans was relatively stable at 0.78 percent in first quarter 2006 compared with one year-ago and remains below the 1.38 percent median for the nation. The state's past-due rate on commercial and industrial (C&I) loans slightly increased from first quarter 2005, but at 0.49 percent is approximately half the median C&I past-due rate for the nation.

New Jersey-headquartered institutions continue to report strong loan growth led by increases in construction and development (C&D) lending.

- New Jersey institutions continue to report strong loan growth, particularly in C&D lending (see Chart 5).⁷ The 41.6 percent growth in C&D loans for the twelve months ending first quarter 2006 exceeded the 29.8 percent median rate for the nation. The increase in these loans, in part, reflects strong demand for financing related to local housing construction. While C&D lending provides higher yields, these portfolios have historically presented higher credit risk relative to home mortgages.
- Despite the high growth rate, the concentration of C&D loans to Tier 1 capital reported by the state's banks (29.5 percent) remains slightly below the national median of 35.9 percent.
- The growth of home equity lines of credit (HELOCs) has declined significantly among institutions based in the state over the past year. Slowing home price appreciation and a shift by some borrowers from variable to fixed-rate debt as interest rates rise may be contributing to the lower HELOC growth.

Chart 4: Decreases in New Jersey's Net Interest Margin Have Constrained Profitability

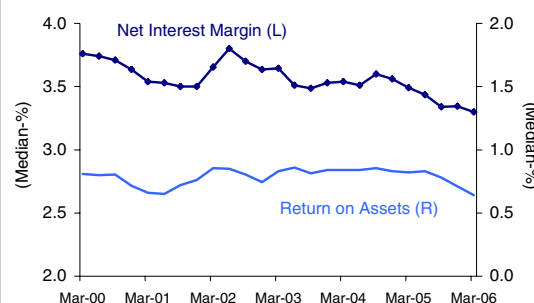
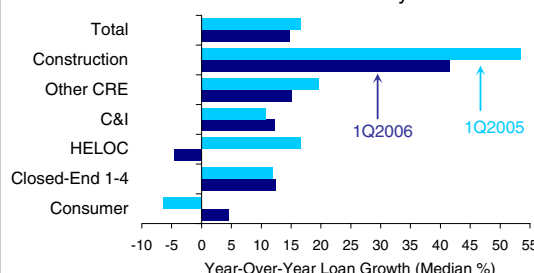


Chart 5: Construction Lending Continues to Lead Loan Growth in New Jersey



³The Otteau Appraisal Group.

⁴Office of Federal Housing Enterprise Oversight.

⁵Unless otherwise stated, data are median quarterly amounts.

⁶Mortgage lenders are defined as institutions that report 1-4 family loans and mortgage backed securities to total assets above 50 percent.

⁷Loan growth rates for the state are merger adjusted for the 12-month period ending March 31.

New Jersey at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q1-06	Q4-05	Q1-05	2005	2004
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.1%	1.0%	1.1%	0.5%
Manufacturing (8%)	-3.6%	-3.0%	-2.0%	-2.8%	-3.5%
Other (non-manufacturing) Goods-Producing (4%)	3.8%	1.7%	1.7%	1.7%	3.4%
Private Service-Producing (72%)	1.7%	1.6%	1.1%	1.5%	0.5%
Government (16%)	1.2%	0.7%	1.7%	1.3%	1.8%
Unemployment Rate (% of labor force)	4.6	4.5	4.4	4.4	4.9

Other Indicators	Q1-06	Q4-05	Q1-05	2005	2004
Personal Income	4.4%	3.3%	6.3%	5.6%	5.6%
Single-Family Home Permits	-0.8%	-4.1%	1.5%	-4.8%	4.7%
Multifamily Building Permits	-8.2%	8.6%	8.9%	28.7%	40.8%
Existing Home Sales	-8.1%	-6.5%	0.3%	-2.2%	8.2%
Home Price Index	14.9%	16.1%	16.7%	16.3%	14.9%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	1.25	7.18	4.66	5.60	4.67

BANKING TRENDS

General Information	Q1-06	Q4-05	Q1-05	2005	2004
Institutions (#)	135	136	139	136	139
Total Assets (in millions)	150,949	157,814	169,607	157,814	167,719
New Institutions (# < 3 years)	10	7	4	7	5
Subchapter S Institutions	7	4	4	4	4

Asset Quality	Q1-06	Q4-05	Q1-05	2005	2004
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.78	0.76	0.73	0.76	0.88
ALLL/Total Loans (median %)	0.93	0.95	1.01	0.95	1.00
ALLL/Noncurrent Loans (median multiple)	2.41	2.58	2.40	2.58	2.39
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.00

Capital / Earnings	Q1-06	Q4-05	Q1-05	2005	2004
Tier 1 Leverage (median %)	10.31	10.13	9.56	10.13	9.49
Return on Assets (median %)	0.64	0.71	0.82	0.78	0.82
Pretax Return on Assets (median %)	0.95	1.01	1.16	1.13	1.23
Net Interest Margin (median %)	3.30	3.34	3.49	3.36	3.54
Yield on Earning Assets (median %)	5.62	5.54	5.12	5.30	5.03
Cost of Funding Earning Assets (median %)	2.48	2.30	1.66	1.97	1.52
Provisions to Avg. Assets (median %)	0.04	0.04	0.05	0.04	0.06
Noninterest Income to Avg. Assets (median %)	0.29	0.29	0.29	0.30	0.31
Overhead to Avg. Assets (median %)	2.59	2.60	2.59	2.51	2.58

Liquidity / Sensitivity	Q1-06	Q4-05	Q1-05	2005	2004
Loans to Assets (median %)	62.2	61.8	60.1	61.8	60.0
Noncore Funding to Assets (median %)	19.3	18.6	17.0	18.6	16.4
Long-term Assets to Assets (median %, call filers)	27.5	26.6	29.3	26.6	29.5
Brokered Deposits (number of institutions)	32	31	28	31	28
Brokered Deposits to Assets (median % for those above)	3.0	3.4	2.8	3.4	2.7

Loan Concentrations (median % of Tier 1 Capital)	Q1-06	Q4-05	Q1-05	2005	2004
Commercial and Industrial	19.7	19.8	24.4	19.8	29.9
Commercial Real Estate	219.1	220.5	209.8	220.5	185.9
<i>Construction & Development</i>	29.5	32.3	22.1	32.3	19.2
<i>Multifamily Residential Real Estate</i>	6.1	6.4	6.9	6.4	6.9
<i>Nonresidential Real Estate</i>	130.7	132.2	139.6	132.2	137.4
Residential Real Estate	235.7	234.5	247.3	234.5	241.7
Consumer	2.0	2.5	3.4	2.5	3.7
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
New York-Northern New Jersey-Long Island, NY-NJ-PA	233	770,488	< \$250 million	60 (44.4%)
Trenton-Ewing, NJ	25	9,302	\$250 million to \$1 billion	50 (37%)
Atlantic City, NJ	17	4,571	\$1 billion to \$10 billion	22 (16.3%)
Ocean City, NJ	13	2,529	> \$10 billion	3 (2.2%)
Vineland-Millville-Bridgeton, NJ	10	1,829		